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ONE HUNDRED SEVENTH CONGRESS

# Congress of the United States

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July 17, 2002

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The Honorable Donald Rumsfeld  
Secretary of Defense  
The Pentagon  
Washington, DC 20310

Dear Secretary Rumsfeld:

Revelations about corporate misdeeds and accounting irregularities at companies such as Enron and WorldCom are causing enormous public concern. Increasingly, this concern is spreading to how the federal government manages the taxpayers' money. We in government have an obligation to ensure that the government's accounts are honest and the taxpayers' money is not squandered.

For this reason, we are writing you to bring to your attention serious financial mismanagement within the Department of Defense. Today, testimony and a report are being released by the General Accounting Office that find widespread problems in the use of travel and purchase cards at the Defense Department. A copy of the testimony and report are enclosed.

Travel cards are special credit cards given to employees by the Defense Department that are intended to be used to pay for travel on official business. But GAO investigators found that these cards are regularly being used for nonofficial business. According to the testimony of Gregory Kutz, the Director of Financial Management and Assurance for Defense at GAO, 15% to 45% of the charges on the travel cards that GAO reviewed were for personal – not government – use.

For example, GAO investigators found that the travel cards were frequently used by Army personnel to obtain cash at strip clubs. GAO found that Army personnel would present the cards at a strip club and ask for cash. The strip club would then commonly charge a 10% fee for the cash and record it as a "restaurant" transaction. GAO also found that these travel cards were being used to pay for everything from dating and escort services to casino and internet gambling to cruises.

GAO's investigation of purchase cards is similarly disturbing. These purchase cards are designed to provide a convenient method to purchase supplies that are not available through the

General Services Administration (GSA) or would take too long to purchase through GSA. Although use of the cards is strictly limited to purchases for official business, GAO's report finds that these cards are regularly being used to purchase personal goods.

According to the GAO report, the personal goods bought with taxpayer dollars on these purchase cards include jewelry, cosmetics, and computer equipment. The purchases reviewed by GAO included:

- An estimated \$30,000 spent on items such as rings, purses, and clothing, including purchases from Victoria's Secret;
- Over \$10,00 spent on a trip to Las Vegas, personal clothing, and paying personal bills;
- An estimated \$100,000 for a variety of items including a computer game station, digital camera, and a surround sound system; and
- \$630 for escort services.

According to GAO, this abuse can be traced to the poor financial management practiced by the Department of Defense. Proper use of these cards requires that someone independently verify that the goods were received by the government and that the purchase was for a government use. GAO found rampant failures to provide these safeguards. In fact, GAO found that "none of the installations . . . audited had a comprehensive or effective program of oversight and monitoring."<sup>1</sup>

These new GAO findings are unfortunately not isolated examples of financial mismanagement at your Department. Last year, GAO found that Navy personnel were similarly using government purchase cards to acquire personal items.<sup>2</sup> And the Inspector General found that in fiscal year 2000 alone, "\$1.2 trillion in department-level accounting entries . . . were unsupported because of documentation problems or improper because the entries were illogical or did not follow generally accepted accounting principles."<sup>3</sup>

Earlier this year, the Department convened a task force to examine the issue of travel and purchase cards and, just two weeks ago, the task force issued recommendations on how to

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<sup>1</sup>U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse*, 17 (June 2002).

<sup>2</sup>U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse* (July 30, 2001).

<sup>3</sup>Office of the Inspector General, Department of Defense, *Independent Auditor's Report on the Department of Defense Fiscal Year 2001 Agency-Wide Financial Statements* (Feb. 26, 2002) (D-2002-055).

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address this problem. While we commend your efforts in convening the task force, its recommendations are clearly inadequate. For example, the recommendations do not address how the use of these cards at strip clubs can be avoided. Furthermore, the task force report does not lay out a specific plan for implementing management changes.

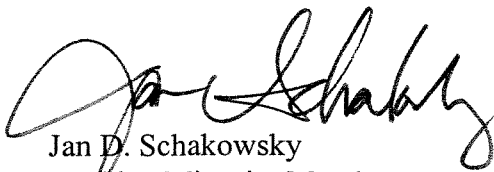
We urge you to take immediate and decisive action to address the problems of financial mismanagement at your Department. The Defense Department should institute sound and effective oversight of these cards, as recommended by GAO.

We also urge you to speak out against efforts by Republican leaders in Congress to expand the use of these cards without proper oversight. Just last week, Rep. Tom Davis, the chair of the Subcommittee on Technology Procurement Policy, and Rep. Dan Burton, the chair of the Government Reform Committee, inserted language in the homeland security bill that raised the threshold for transactions using purchase cards from \$2,500 to \$5,000. Due to the efforts of Rep. Jim Turner, the ranking member of the Subcommittee on Technology and Procurement Policy, the proposed increase in the threshold was reduced from \$15,000 to \$5,000. But even this increase is too much without proper financial management.

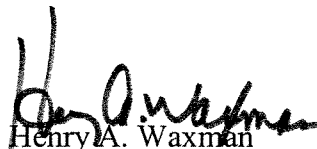
At the same time as the federal budget is deteriorating rapidly, our nation is fighting a new and expensive war on terrorism. We can not afford to allow financial mismanagement to continue: The American people need to be sure that every dollar is well spent. The Department of Defense spent over \$6.1 billion with purchase cards in fiscal year 2001. With the increase in the threshold for the cards and the increases in appropriations for the Department, that number is sure to rise. As it does, it is your responsibility to ensure that this money is not wasted.

We respectfully request that you inform us of your plans to rectify this financial mismanagement no later than September 4, 2002.

Sincerely,



Jan D. Schakowsky  
Ranking Minority Member  
Subcommittee on Government  
Efficiency, Financial Management, and  
Intergovernmental Relations



Henry A. Waxman  
Ranking Minority Member  
Committee on Government Reform